5th August 2022

Monetary Policy Statement, 2022-23
Resolution of the Monetary Policy Committee (MPC), August 5th, 2022

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) decided to Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.40 per cent with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.15 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.65 per cent.

The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The Monetary Policy Statement, 2022-23 and the Statement on Developmental and Regulatory Policies are appended below.

प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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August 05, 2022

Monetary Policy Statement, 2022-23
Resolution of the Monetary Policy Committee (MPC)
August 3-5, 2022

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (August 5, 2022) decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.40 per cent with immediate effect.

Consequently, the standing deposit facility (SDF) rate stands adjusted to 5.15 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.65 per cent.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

2. Since the MPC's meeting in June 2022, the global economic and financial environment has deteriorated with the combined impact of monetary policy tightening across the world and the persisting war in Europe heightening risks of recession. Gripped by risk aversion, global financial markets have experienced surges of volatility and large sell-offs. The US dollar index soared to a two-decade high in July. Both advanced economies (AEs) and emerging market economies (EMEs) witnessed weakening of their currencies against the US dollar. EMEs are experiencing capital outflows and reserve losses which are exacerbating risks to their growth and financial stability.

Domestic Economy

3. Domestic economic activity remains resilient. As on August 4, 2022, the south-west monsoon rainfall was 6 per cent above the long period average (LPA). *Kharif*

sowing is picking up. High frequency indicators of activity in the industrial and services sectors are holding up. Urban demand is strengthening while rural demand is gradually catching up. Merchandise exports recorded a growth of 24.5 per cent during April-June 2022, with some moderation in July. Non-oil non-gold imports were robust, indicating strengthening domestic demand.

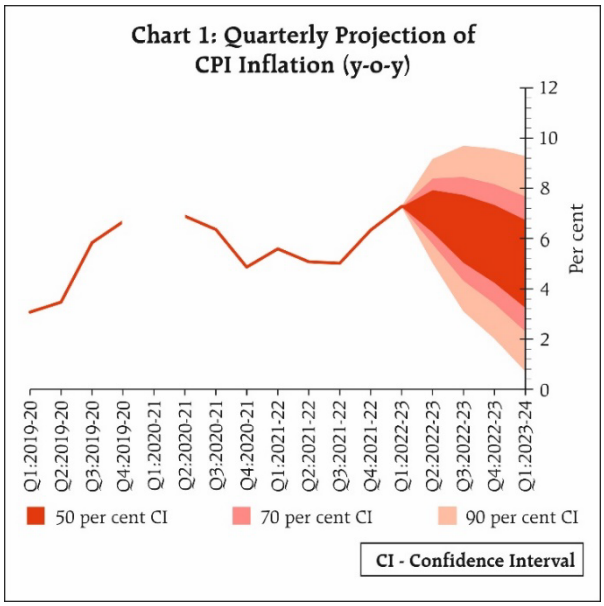
4. CPI inflation eased to 7.0 per cent (year-on-year, y-o-y) during May-June 2022 from 7.8 per cent in April, although it persists above the upper tolerance band. Food inflation has registered some moderation, especially with the softening of edible oil prices, and deepening deflation in pulses and eggs. Fuel inflation moved back to double digits in June primarily due to the rise in LPG and kerosene prices. While core inflation (*i.e.*, CPI excluding food and fuel) moderated in May-June due to the full direct impact of the cut in excise duties on petrol and diesel pump prices, effected on May 22, 2022, it remains at elevated levels.

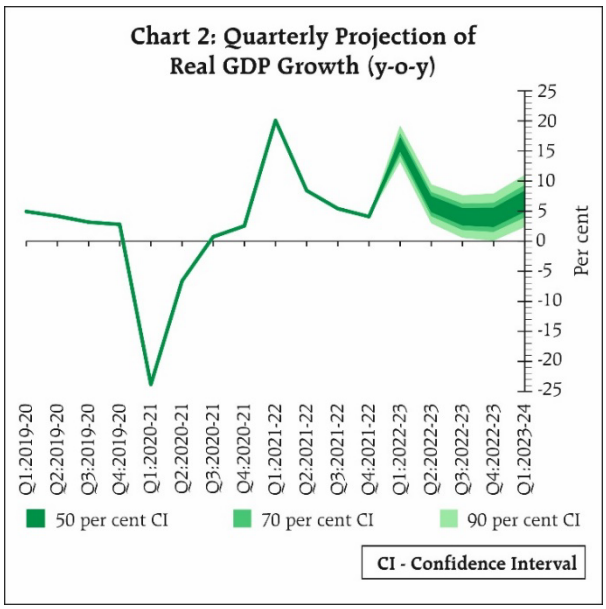
5. Overall system liquidity continues in surplus, with average daily absorption under the LAF at ₹3.8 lakh crore during June-July. Money supply (M3) and bank credit from commercial banks rose (y-o-y) by 7.9 per cent and 14.0 per cent, respectively, as on July 15, 2022. India's foreign exchange reserves were placed at US$ 573.9 billion as on July 29, 2022.

Outlook

6. Spillovers from geopolitical shocks are imparting considerable uncertainty to the inflation trajectory. More recently, food and metal prices have come off their peaks. International crude oil prices have eased in recent weeks but remain elevated and volatile on supply concerns even as the global demand outlook is weakening. The appreciation of the US dollar can feed into imported inflation pressures. Rising *kharif* sowing augurs well for the domestic food price outlook. The shortfall in paddy sowing, however, needs to be watched closely, although stocks of rice are well above the buffer norms. Firms polled in the Reserve Bank's enterprise surveys expect input cost pressures to soften across sectors in H2. Cost pressures are, however, expected to get increasingly transmitted to output prices across manufacturing and services sectors. Taking into account these factors and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US$ 105 per barrel, the inflation projection is retained at 6.7 per cent in 2022-23, with Q2 at 7.1 per cent; Q3 at 6.4 per cent; and Q4 at 5.8 per cent, and risks evenly balanced. CPI inflation for Q1:2023-24 is projected at 5.0 per cent (Chart 1).

7. On the outlook for growth, rural consumption is expected to benefit from the brightening agricultural prospects. The demand for contact-intensive services and the improvement in business and consumer sentiment should bolster discretionary spending and urban consumption. Investment activity is expected to get support from the government's capex push, improving bank credit and rising capacity utilisation. Firms polled in the Reserve Bank's industrial outlook survey expect sequential expansion in production volumes and new orders in Q2:2022-23, which is likely to sustain through Q4. On the other hand, elevated risks emanating from protracted geopolitical tensions, the upsurge in global financial market volatility and tightening global financial conditions continue to weigh heavily on the outlook. Taking all these factors into consideration, the real GDP growth projection for 2022-23 is retained at 7.2 per cent, with Q1 at 16.2 per cent; Q2 at 6.2 per cent; Q3 at 4.1 per cent; and Q4 at 4.0 per cent, and risks broadly balanced. Real GDP growth for Q1:2023-24 is projected at 6.7 per cent (Chart 2).





8. Headline inflation has recently flattened and the supply outlook is improving, helped by some easing of global supply constraints. The MPC, however, noted that inflation is projected to remain above the upper tolerance level of 6 per cent through the first three quarters of 2022-23, entailing the risk of destabilising inflation expectations and triggering second round effects. Given the elevated level of inflation and resilience in domestic economic activity, the MPC took the view that further calibrated monetary policy action is needed to contain inflationary pressures, pull back headline inflation within the tolerance band closer to the target, and keep inflation expectations anchored so as to ensure that growth is sustained. Accordingly, the MPC decided to increase the policy repo rate by 50 basis points to 5.40 per cent. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

9. All members of the MPC – Dr. Shashanka Bhide, Dr. Ashima Goyal, Prof. Jayanth R. Varma, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra and Shri Shaktikanta Das – unanimously voted to increase the policy repo rate by 50 basis points to 5.40 per cent.

10. All members - Dr. Shashanka Bhide, Dr. Ashima Goyal, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra and Shri Shaktikanta Das, except Prof. Jayanth R. Varma - voted to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. Prof. Jayanth R. Varma expressed reservations on this part of the resolution.

11. The minutes of the MPC's meeting will be published on August 19, 2022.

12. The next meeting of the MPC is scheduled during September 28-30, 2022.

(Yogesh Dayal)
Chief General Manager

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August 05, 2022

Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures relating to (i) Regulation and Supervision; (ii) Financial Markets; and (iii) Payment and Settlement systems.

I. Regulation and Supervision

1. Master Direction on Managing Risks and Code of Conduct in Outsourcing of Financial Services

Regulated Entities (REs) are increasingly using outsourcing as a means for reducing costs as well as for availing expertise not available internally. Although outsourcing of a permissible activity is an operational decision of REs, it exposes REs to various risks. The Reserve Bank of India has, from time to time, issued several guidelines/ directions on managing risks in outsourcing of financial services to Scheduled Commercial Banks (excluding Regional Rural Banks (RRBs)), Non-Banking Finance Companies (NBFCs), Housing Finance Companies (HFCs) and co-operative banks. With a view to update and harmonize the extant guidelines, adopt and incorporate global best practices as also enable REs to have all current instructions on outsourcing of financial services at one place for reference, the Reserve Bank proposes to issue draft Reserve Bank of India (Managing Risks and Code of Conduct in Outsourcing of Financial Services) Directions, 2022, for public comments shortly. The scope of these Directions is being expanded to also include RRBs, Local Area Banks (LABs), All India Financial Institutions, Credit Information Companies, and non-scheduled Payments Banks.

2. Inclusion of Credit Information Companies (CICs) under the Reserve Bank - Integrated Ombudsman Scheme (RB-IOS) 2021 and Extending the Internal Ombudsman (IO) Mechanism

The Reserve Bank-Integrated Ombudsman Scheme (RB-IOS) 2021, covers Regulated Entities (REs) such as scheduled commercial banks including urban cooperative banks, non-banking financial companies (NBFCs) and non-scheduled primary co-operative banks with a deposit size of ₹50 crore and above. In order to make the RB-IOS more broad based, it has been decided to bring Credit Information Companies (CICs) also under the ambit of RB-IOS 2021. This will provide a cost free alternate redress mechanism to customers of REs for grievances against CICs. Further, with a view to strengthen the internal grievance redress of the CICs and to make it more efficient, it has also been decided to bring the CICs under the Internal Ombudsman (IO) framework.

II. Financial Markets

3. Standalone Primary Dealers (SPDs) – expansion in scope of permitted activities

At present, Standalone Primary Dealers (SPDs) are permitted to undertake foreign currency business for limited purposes. With a view to strengthen the role of SPDs as market makers, on a par with banks operating primary dealer business, it is proposed to enable SPDs to offer all foreign exchange market-making facilities as currently permitted to Category-I Authorised Dealers, subject to prudential guidelines. This measure would give forex customers a broader spectrum of market-makers in managing their currency risk, thereby adding breadth to the forex market in India. Wider market presence would improve the ability of SPDs to provide support to the primary issuance and secondary market activities in government securities, which would continue to be the major focus of primary dealer activities. Regulations in this regard would be issued separately.

4. Permitting Standalone Primary Dealers to Deal in offshore Foreign Currency Settled Overnight Indexed Swap Market

Banks in India were permitted, in February 2022, to undertake transactions in the offshore Foreign Currency Settled Overnight Indexed Swap (FCS-OIS) market with non-residents and other market makers with a view to removing the segmentation between onshore and offshore OIS markets and improving the efficiency of price discovery. Standalone Primary Dealers (SPDs) are also market-makers, like banks, in the onshore OIS market. It has now been decided that SPDs authorized under section 10(1) of FEMA,1999 will also be permitted to undertake FCS-OIS transactions directly with non-residents and other market-makers. Necessary directions will be issued shortly.

5. Committee on MIBOR Benchmark

The Mumbai Interbank Outright Rate (MIBOR) based overnight indexed swap (OIS) contracts are the most widely used interest rate derivatives (IRDs) in the onshore market. The usage of MIBOR based derivative contracts has increased with steps taken by the Reserve Bank to diversify the participant base and facilitate the introduction of new IRD instruments. At the same time, the MIBOR benchmark rate, calculated based on call money deals executed on the NDS-call platform in the first hour after market opening, is based on a narrow window of transactions. Internationally, there has been a shift to alternate benchmark rates with wider participant bases (beyond banks) and higher liquidity. Amidst these developments, it is proposed to set up a committee to undertake an in-depth examination of the issues, including the need for transition to an alternate benchmark, and suggest the most appropriate way forward.

III. Payment and Settlement Systems

6. Enabling Bharat Bill Payment System (BBPS) to Process Cross-Border Inbound Bill Payments

Bharat Bill Payment System (BBPS), owned and operated by NPCI Bharat BillPay Ltd. (NBBL), has transformed the bill payment experience in the country. BBPS offers an interoperable platform for standardised bill payment experience, centralised customer grievance redress mechanism, uniform customer convenience fee, etc.

Over 20,000 billers have been onboarded on the system and more than eight crore transactions are processed on a monthly basis. BBPS is currently accessible only for residents in India. To facilitate Non-Resident Indians (NRIs) undertake utility, education and other bill payments on behalf of their families in India, it is proposed to enable BBPS to accept cross-border inward payments. This will also benefit payment of bills of any biller onboarded on the BBPS platform in an interoperable manner. Necessary instructions will be issued shortly.

(Yogesh Dayal)
Chief General Manager

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